

Message Text

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ORIGIN EUR-12

INFO OCT-01 ISO-00 TRSE-00 SS-15 CEA-01 /029 R

DRAFTED BY EUR/RPE: R S GELBARD: TREAS: D KLOCK: VS
APPROVED BY EUR/RPE: P L LAASE
TREAS:D KLOCK
E: S BLACK (SUBS)
CEA: J SHAFER (SUBS)

-----106754 242334Z /66

O 242302Z MAY 78
FM SECSTATE WASHDC
TO AMEMBASSY PARIS IMMEDIATE
INFO AMEMBASSY BRUSSELS IMMEDIATE

C O N F I D E N T I A L STATE 132647

USOECD, USEEC PASS COOPER

E.O. 11652: GDS

TAGS: ECON, OECD

SUBJECT: COMMENTS ON C(78)94 FOR MAY 25 HEADS OF DELE-
GATION MEETING

1. DURING MAY 25 HEADS OF DELEGATION MEETING CONCERNING
SUBSTANCE OF SECRETARY-GENERAL'S NOTE C(78)94, WE WOULD
LIKE FOLLOWING COMMENTS TO BE MADE REFLECTING USG'S
FIRST VIEWS ON PAPER.

2. IN GENERAL, WE ARE CONCERNED ABOUT THE SPECIFICITY
INVOLVED IN THIS PAPER, PARTICULARLY AS OUTLINED IN THE
"PROPOSALS" CONTAINED IN THE ANNEX TABLE. OUR THINKING
IS THAT SUCH SPECIFICITY COULD WELL DETRACT FROM MUCH OF
THE PROGRESS ACHIEVED IN THIS EXERCISE BY CAUSING COUNTRIES
TO FOCUS ON THE NUMBERS AND METHODOLOGY. IN ADDITION,
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THE LESSONS OF PREVIOUS TARGETRY EXERCISES ARE SUCH THAT
WE SHOULD PERHAPS NOT REFER TO SPECIFIC NATIONAL OR OECD-
WIDE FIGURES (E.G., PARAS 3 AND 15 DISCUSSING 5 PERCENT
GROWTH).

3. WE WOULD LIKE TO SEE THE STATEMENT IN PARA 4 ON
"REACCELERATING INFLATION" IN THE U.S. CHANGED TO SAY

"INFLATION MAY BE SOMEWHAT HIGHER IN THE U.S."

4. PARA 7: IN CONTRAST WITH THE 30 BILLION DOLLAR CURRENT ACCOUNT DEFICI- CITED FOR NORTH AMERICA, OUR FIGURES ESTIMATE 28 BILLION DOLLARS.

5. PARA 8: THE POINT ON "OVERSHOOTING" IMPLIES A DEGREE OF ASSURANCE CONCERNING "CORRECT" RATE RELATIONSHIPS WE DO NOT BELIEVE JUSTIFIED ON EITHER TECHNICAL OR ANALYTICAL GROUNDS. IN ANY CASE, IT IS COUCHED SOLELY WITH RESPECT TO TRADE AND CURRENT ACCOUNT AND IGNORES CAPITAL FLOWS, EXPECTATION, ETC.

6. PARA 9: WE WOULD LIKE TO ADD THE FOLLOWING TO THE END: "IN OTHER WORDS, THERE IS A SIGNAL FAILURE FOR EXPANSION TO BECOME SELF-SUSTAINING, EITHER THROUGH AN UP-SWING IN BUSINESS INVESTMENT OR THROUGH AN ADEQUATE REVIVAL OF WORLD TRADE."

7. PARA 10: THE MENTION OF STABLE EXCHANGE MARKETS IN PARAGRAPH 10 IS A NON-SEQUITUR. "MARKETS" APPEARS TO BE A EUPHEMISM FOR "RATES"; IN ANY CASE, THE SECRETARIAT APPEARS TO ASSUME THAT COUNTRIES HAVE SOME SORT OF TARGET RATES OR ZONES AS MAJOR POLICY GOALS. SOME MAY HAVE, BUT THAT'S NOT THE WAY THE SYSTEM IS SUPPOSED TO WORK.

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8. PARA 12: THIS DISCUSSION IS ANALYTICALLY FAULTY, SINCE IT REQUIRES ONE SET OF BUSINESSMEN TO BE CONSISTENTLY WRONG. EITHER THE INVESTORS IN DEPRECIATING COUNTRIES WILL NOT SUFFER THE EXPECTED INFLATIONARY RESULTS, OR THE INFLATION WILL NEGATE THE EFFECT OF THE COMPETITIVE POSITION OF APPRECIATING COUNTRIES. THERE MAY BE A SYMMETRICAL EFFECT OF UNCERTAINTY ON EXPECTATIONS, BUT THIS NEEDS TO BE HANDLED BY POLICIES WHICH ATTACK THE FUNDAMENTALS. THE POSTULATED NEED FOR MORE RAPID POLICY RESPONSE UNDER FLOATING RATES IS ALSO ILLOGICAL. IF CORRECT POLICIES ARE FOLLOWED, INAPPROPRIATE RATE MOVEMENTS WON'T OCCUR. ON BOTH GROUNDS, THE PARA ATTRIBUTES TO THE SYSTEM WHAT SHOULD BE ATTRIBUTED TO POLICIES ON THE FUNDAMENTALS -- GROWTH, INFLATION, AND RESULTING EXPECTATIONS.

9. PARA 18: SUBPARA A) FOURTH SENTENCE, AFTER: "WHETHER TO CORRECT EXISTING", ADD "PAYMENTS IMBALANCES OR..."

SUBPARA B) THIS IS INCONSISTENT (AS IS 19II) IN SAYING THAT FEARS OF RISING INFLATION EXIST WITH LOW GROWTH AND HIGH GROWTH

SUBPARA E) BESIDES THE OPEC COUNTRIES, IT SHOULD BE NOTED THAT THE SLOWER RATES OF GROWTH AND LOWER INVESTMENT

SHARES PROJECTED BY A NUMBER OF OTHER COUNTRIES, AS COMPARED WITH THE 1960S, LEADS TO AN IMBALANCE BETWEEN EX ANTE SAVING AND INVESTMENT AT HIGH EMPLOYMENT LEVELS.

10. PARA 19: OMITTS A POINT ON WORSENEED EXTERNAL IMBLANCES, GREATER EXCHANGE RATE FLUCTUATION AND HEIGHTENED INFLATION DISPERSION.

11. PARA 30: WE FIND THIS PARAGRAPH GENERALLY UNACCEPTABLE. IT REPRESENTS A FUNDAMENTAL DEPARTURE FROM THE RAMBOUILLET/JAMAICA AGREEMENTS, AS EMBODIED IN THE REVISED CONFIDENTIAL

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ARTICLES OF THE IMF. WE CANNOT HAVE IT SUGGESTED THAT IT COULD BE APPROPRIATE FOR AUTHORITIES TO INTERVENE TO "NUDGE" RATES AROUND. AND THE MENTION OF "FUNDING OPERATIONS" IS SIMPLY NOT IN THE RIGHT FORUM, NOR IS THE DISCUSSION AT A STAGE WHERE MINISTERS MIGHT CONSIDER THEM.

OUR GENERAL REACTION WOULD BE THAT WE ARE NOT GOING TO RE-NEGOTIATE THE IMF ARTICLES. MUCH OF THE MATERIAL ON EXCHANGE RATES AND EXCHANGE MARKETS IN THE SECRETARIAT DOCUMENT RUN COUNTER TO THE AMENDED ARTICLES.

12. USG OFFICIALS WOULD BE PREPARED TO DISCUSS PAPER FURTHER WITH SECRETARIAT DURING NEXT WEEK'S EPC, WP-3 AND POSITIVE ADJUSTMENT MEETINGS.

CHRISTOPHER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INSTRUCTIONS, MEETING AGENDA, POLICIES, COMMITTEE MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 24 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE132647
Document Source: CORE
Document Unique ID: 00
Drafter: R S GELBARD: TREAS: D KLOCK: VS
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780219-1084
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780522/aaaaasnj.tel
Line Count: 152
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: eb094597-c288-dd11-92da-001cc4696bcc
Office: ORIGIN EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 18 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2581797
Secure: OPEN
Status: NATIVE
Subject: COMMENTS ON C(78)94 FOR MAY 25 HEADS OF DELE- GATION MEETING
TAGS: ECON, US, OECD
To: PARIS USOECD MULTIPLE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/eb094597-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014